

Retirement Reform: Members to look at 'big picture'

In July, National Treasury published its anticipated draft default regulations as part of the country's broader retirement reforms. As the closing date for public comments has been extended to 31 October 2015, Michelle du Toit, Principal consultant at Old Mutual Corporate, says that retirement fund members should welcome the spirit of these regulations as they promote their financial wellbeing in retirement.



Michelle du Toit, Principal consultant at Old Mutual Corporate

A key aspect of the draft default regulations is that they require all retirement funds to implement a set of default strategies for fund members in terms of investments, an at-retirement annuity and preservation on resignation.

Du Toit explains that a default is an automatic choice made on behalf of a fund member who does not actively select a different option. "The South African retirement industry has had defaults in place for many years, but the draft default regulations place additional emphasis on offering such investment defaults, and extend this requirement to preservation (saving your money when you change jobs) and 'at-retirement' annuity options."

She explains that the main aim of the proposed retirement fund reforms for South Africa is to improve retirement outcomes for members, and that the draft default regulations are an important step towards achieving this.

"Our research from past Old Mutual Savings & Investment Monitors show that South Africans do not save enough for retirement, and too often wake up to this fact when it is too late. The core purpose of these draft default regulations is to promote members' financial wellbeing in retirement, and the proposed defaults are based on the principles of good financial practice."

Du Toit unpacks the proposed defaults and what these mean to members:

- **Default investments:** The default investment strategy regulation requires that all retirement funds make provision for a default investment strategy that is simple, transparent and cost effective.
- **Default Preservation and Portability:** This requires that all retirement funds whose members are enrolled as a condition of employment have a default preservation strategy. Du Toit explains that this will change the current practice where many members currently take their pension benefit in cash on resignation. "Members, however, will still have the option of taking cash, they will just need to opt for that option in writing."
- **Default Annuity Strategy:** The proposed default will require all retirement funds to have a default annuity strategy in place for members, and the draft regulations specify certain requirements that must be complied with. Funds are also required to make retirement benefit counsellors available and assist members at retirement to understand the default strategy. "What to do with your money at retirement is often one of the most complicated decisions to make, so putting a default in place means members have a responsible option available that should simplify the decisions," says du Toit

Du Toit stresses that while the draft default regulation places more responsibility on trustees to improve its members' retirement outcomes (as illustrated above), members need to continue to take ownership of their retirement savings. "It is not an employer's obligation to ensure that members have saved properly for retirement, but instead the onus is on each individual member to ensure that they ask the right people, the right questions. Members must obtain information from a valid, trustworthy source, such as a fund trustee or financial adviser, to safeguard their retirement funding."

Commenting on the proposed draft default regulation, du Toit adds: "Old Mutual Corporate supports the broad aims and purpose of these draft regulations, particularly the focus on transparency, disclosure and the best interests of members - which is fully aligned to our Responsible Business approach and our core purpose of helping members achieve their lifetime financial goals. However, there are some aspects of the draft regulations that we are concerned about or where we feel more clarity is required. We have responded to National Treasury and provided them with our response around some specific aspects of the proposals where we require clarity or have concerns."

For more, visit: <https://www.bizcommunity.com>